



Testimony of the Michigan Chamber of Commerce
Senate Government Operations Committee
Medicaid Expansion and Reform
July 30, 2013

Good afternoon, Mr. Chair and members of the committee. My name is Wendy Block and I am the Director of Health Policy and Human Resources for the Michigan Chamber of Commerce. Thank you for the opportunity to be here this afternoon to discuss our support for the Senate Substitute to HB 4714, Medicaid Reform and Expansion.

As I begin my testimony, I want to explain what brings us to the table on this issue. The Michigan Chamber opposed the Affordable Care Act (ACA) from the start as a seriously flawed bill that does little to address the real problem in health care: affordability. This affordability issue remains a key concern of businesses in Michigan and nationwide, with many businesses identifying it as the biggest business challenge they currently face.¹ Even with the delay in the employer penalties, our members are reporting that they are holding back on plans to add employees or expand their business because of the ACA and its expected impact on the cost of providing employer-sponsored health insurance coverage.

Despite our continued opposition to the ACA, the Michigan Chamber's Board of Directors voted to support Medicaid Reform and Expansion. We believe this issue, if done right, presents a real and unique opportunity to bend the overall health care cost curve and lessen the negative impact the ACA will have on our state's job providers and other health insurance purchasers.

After significant review of this issue, our members concluded that Expansion is in the best interest of Michigan employers because it should reduce the cost-shift to private payers. Today, Michigan hospitals provide approximately \$1 billion per year in uncompensated care to Michigan's uninsured citizens. These costs are borne by Michigan's hospitals but they ultimately recover these losses by obtaining higher reimbursement rates when they negotiate the contracts they have with health insurers. This causes premiums to go up, with the net effect being that those with health insurance (i.e., Michigan job providers and others) pay for the financial losses hospitals incur when they provide services to those without insurance. According to some, this cost-shifting phenomenon imposes a hidden, annual tax of about \$1,000 per family through higher health insurance premiums.

¹ <http://www.prnewswire.com/news-releases/providing-healthcare-benefits-is-top-business-challenge-for-company-leadership-according-to-adecco-staffing-us-survey-177464941.html>

This is not to suggest we expect premiums to go down due to HB 4714. We know this is not realistic due to all of the various tax increases and mandates contained in the ACA. However, the language in the substitute version of HB 4714 creates a mechanism whereby any reduction hospitals realize in uncompensated care costs will be measured and translated into health insurance rates, giving the Insurance Commissioner key rate review tools.

In addition to the cost shift issue, the Michigan Chamber cares about this issue because it is a balance sheet issue for many of our members. How so? Medicaid expansion it will protect some (key word being "some") employers from having to pay employer penalties under the ACA beginning in 2015. This is especially true in industries that employ a large number of lower-wage workers.

A study by Jackson-Hewitt suggests employers will pay \$54 to \$81 million in "shared responsibility" taxes under the ACA if Michigan doesn't expand Medicaid. This is because the ACA requires employers with more than 50 or more full-time equivalent employees to offer minimal essential health care coverage to their employees working at least 30 hours per week. If they fail to offer coverage, *or the coverage they offer is unaffordable or inadequate*, their employees are eligible for subsidized coverage in the Exchange and the employer must pay a shared responsibility penalty.

However, in states that accept the Medicaid Expansion, low wage workers earning less than 133 percent of the Federal Poverty Level without *affordable* employer-based coverage would be eligible to enroll in Medicaid and their employers would not incur the shared responsibility penalty.

In states that decide against Medicaid Expansion, that choice would not be available. Instead, employees between 100 and 133 percent of the Federal Poverty Level who are without adequate, affordable employer-offered coverage would need to go to the Exchange for coverage, where they will be eligible for premium assistance tax credits. Employers would then pay a shared responsibility payment for those employees who use premium tax credits to purchase coverage on the Exchange. The shared responsibility payment is up to \$3,000 per employee that uses premium tax credits to purchase Exchange coverage -- or \$2,000 for each full time employee minus 30, whichever is less.

To further detail how this works, please turn to the case studies attached to my testimony. Here, you can walk through the various scenarios and how Medicaid Expansion may intersect with the penalties under the ACA.

The ACA tries to make Expansion an "all or nothing" choice -- either expand to 133 percent of federal poverty level, or reject expansion and the federal funding entirely. We applaud the efforts of Senator Kahn and the Medicaid Workgroup to find a "third way", building on the work of the Michigan House in developing a waiver proposal that adds additional cost-saving reforms and personal responsibility measures to the program. We are hopeful this waiver will be approved, allowing our state to implement Expansion in a way that is fiscally responsible, gives our state's uninsured access to cost-effective health care services and provides Michigan job providers ACA penalty relief and premium relief.

Thank you for your time and attention. I'd be happy to answer any questions you may have.

Case Studies: Employer Penalties and Medicaid Expansion

Two types of penalties:

95% Rule	Unaffordable Rule
<ul style="list-style-type: none">• 50+ full-time employees (FTEs)• Employer does not offer coverage to at least 95% of full-time employees• At least one employee accesses subsidies through the Exchange• Penalty: $\\$2,000 \times (\text{FTE} - 30)$• <u>Medicaid Expansion doesn't impact</u>	<ul style="list-style-type: none">• 50+ full-time employees (FTEs)• Employer maintains plan• Plan is unaffordable to some (more than 9.5% of household income)• Fee: $\\$3,000 \times$ each employee that accesses subsidies through the Exchange or $\\$2,000 \times (\text{FTE} - 30)$, whichever is less• <u>Medicaid Expansion may impact</u>

Employer A – Small Employer

- Small Employer: 40 full-time employees
- Employer does not offer employer-sponsored coverage

Today:

➤ TOTAL HEALTH INSURANCE COSTS: \$0

Under the ACA/Expansion:

- Does not offer health insurance coverage but penalties do not apply because employer has less than 50 employees

➤ TOTAL HEALTH INSURANCE/ACA COSTS: \$0

❖ *Medicaid Expansion does not impact the employer in any way*

Employer B – Large Employer Not Offering Coverage (95% Rule)

- Large Employer: 90 full-time employees
80 employees work 30 hours/week and earn \$7.40/hour, or \$11,544/year
10 employees are salaried, earning \$50,000/year or more
- Employer does not offer employer-sponsored coverage

Today:

➤ TOTAL HEALTH INSURANCE COSTS: \$0

Under the ACA/Expansion:

- Penalties apply because 50+ employees, does not offer health insurance coverage
- Penalties apply only if one person accesses a premium assistance tax credit under the Exchange: $\$2,000 \times (90 \text{ FTE} - \text{first } 30 \text{ employees})$

➤ TOTAL HEALTH INSURANCE/ACA COSTS: \$120,000

❖ *Medicaid Expansion does not impact the employer in any way*

Employer C – Large Employer Offering Coverage (Unaffordable Rule)

- 100 full-time employees
90 employees work 30 hours/week and earn \$7.40/hour, or \$11,544/year
10 employees are salaried, earning \$50,000/year or more
- Employer offers coverage to employees, \$2500 deductible

Today:

Employee coverage (“single”): $\$8200 \times 100$ employees
➤ TOTAL HEALTH INSURANCE COSTS: \$820,000

Under the ACA:

- Maintains coverage for employees with a \$2500 annual premium contribution
- “Shared Responsibility” penalties²
 - 80 employees elect Medicaid due to Expansion
 - ❖ NO PENALTY
 - 10 employees seek a premium subsidy tax credit under the Exchange because employer plan is “unaffordable”
 - ❖ $10 \times \$3000 = \$30,000$
 - 10 employees accept employer-sponsored coverage
 - ❖ NO PENALTY (cost of coverage: $\$8200 \times 10 = \$82,000$)
 - TOTAL HEALTH INSURANCE/ACA COSTS IF EXPAND MEDICAID:
\$112,000
 - ❖ Enrollment in Medicaid impacts the employer
 - ❖ If ALL elect Medicaid, no penalties and just the cost of employer-sponsored coverage (\$82,000)
- Without Expansion, employer costs would significantly increase:
 - “Shared Responsibility” penalties³
 $\$2000 \times (100 \text{ FTE} - 30) = \$140,000$
 - Cost of employer-sponsored coverage
 $\$8,200 \times 10 = \$82,000$
 - TOTAL HEALTH INSURANCE/ACA COSTS IF DON'T EXPAND MEDICAID: \$222,000

❖ NOTE: If the employer dropped employer-sponsored health insurance, costs would drop significantly (penalty: $\$2,000 \times (100 \text{ FTE} - 30) = \$140,000$)

² Penalties apply because employee cost-sharing is more than 9.5% of the employee's household income; penalty of $\$2,000 \times (\text{FTE}-30)$ is less so it is used in this example

³ Added 40 employees who would otherwise select Medicaid due to Expansion now enroll in a premium subsidy tax credit under the Exchange

Employer D – Large Employer Offering Coverage (Unaffordable Rule)

- 90 full-time employees
 - 80 employees work 30 hours/week and earn \$15/hour, or \$23,400/year
 - 10 employees are salaried, earning \$50,000/year or more
- Employer offers coverage to employees, \$1000 deductible

Today:

Employee coverage (“single”): \$8200 x 90 employees

➤ TOTAL HEALTH INSURANCE COSTS: \$738,000

Under the ACA:

- Maintains coverage for employees with a \$1000 annual premium contribution
 - No employees are eligible to elect Medicaid due to income (NO PENALTY)
 - Employer plan is “affordable”⁴ so no employees are eligible to seek a premium subsidy tax credit under the Exchange (NO PENALTY)
 - 90 employees elect employer-sponsored coverage (cost: \$8200 x 90 = \$738,000)

➤ TOTAL HEALTH INSURANCE/ACA COSTS: \$120,000

❖ *Medicaid Expansion does not impact this employer in any way*

- ❖ NOTE: If the employer dropped employer-sponsored health insurance, costs would drop significantly (90 employees x \$2,000 penalty = \$180,000)

⁴ Because employee contribution is less than 9.5% of household income

